EXHIBIT 1
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Montana's Gambling Industry: An Update

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Recent initiatives to limit gambling in Montana have failed, implying that many of the state's residents recognize and accept gambling as a form of recreation and entertainment.

Nevertheless, this topic generally ignites heated debate centered around social, ethical, and economic issues. What kind of impact do gambling establishments have on Montana's economy? How many people do they employ? What kind of taxes do these businesses pay?

Answers are not easy to find. Unlike other industries, there is not a standard set of statistics available for gambling firms. In fact, statistics are scattered among a number of industry classifications. For example, some gambling establishments are restaurants or bars and are classified in the eating and drinking category; others are casinos and are considered a service industry; still others may be technically categorized as gas stations. This situation makes it difficult to compare gambling to other industries using common yardsticks such as sales, employment, and labor income.

At the request of the Gaming Research and Education Fund, the Bureau of Business and Economic Research conducted a survey of Montana gambling establishments to gather some of these statistics.

Keno is a popular game in Montana gambling establishments.

PHOTO FROM BUREAU FILES.

In April 2002, the Bureau mailed questionnaires to a random cross section of 728 gambling license holders. Valid responses were received from 402 establishments by June 3, 2002. Forty-nine establishments on the original list had closed, leaving 679 valid establishments. Following the guidelines of the American Association for Public Opinion Research (AAPOR), the calculated response rate was 402/679, or 59.2 percent.

This report builds on a similar survey of gambling establishments conducted by the Bureau in 1998. Most of the aggregate statistics (total sales, expenses, taxes) are comparable between the surveys, and may be used to evaluate industry changes in the past four years. However, some of the questions have been modified (we learned from our earlier experiences) and certain detailed items may not be comparable between the two surveys. The only conceptual difference is that the current study does not include statistics for the roughly 85 establishments that have licenses but report no video gambling machines (VGMs). We received too few responses from these firms to develop reliable estimates of their characteristics. However, these are mostly very small firms, and their exclusion should not significantly affect the estimates.

Financial Conditions of Gambling Establishments

Montana's gambling industry consists mostly of the 1,709 establishments with Montana Department of Justice licenses to operate video gaming machines (VGMs). These establishments received about $1.039 billion in revenue in 2002 (Figure 1). Gambling activities accounted for $281 million, roughly 27 percent of total revenue. Other important revenue sources include fuel (24 percent), food (19 percent), and alcohol (19 percent). Miscellaneous revenue sources, such as membership dues, accounted for the remaining 11 percent.

The largest expense for Montana gambling establishments was the cost of goods sold. The purchase of gasoline, food, alcohol, and other items for resale accounted for about $406 million, or approximately 39 percent of total expenses. Payroll costs, including fringe benefits, totaled about $201 million, or 19 percent. Business-related services (advertising, repairs, professional services, etc.) were about $85 million, or 8 percent. Payments for vendor-owned VGMs, sometimes called vendor split, were $49 million, or roughly 5 percent of total expenses.

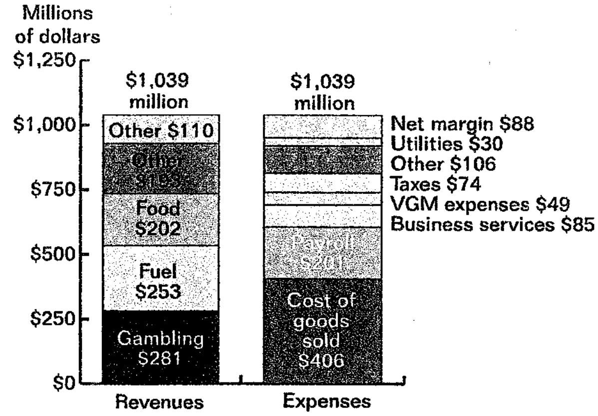
Net margin provides an overall financial perspective of Montana gambling establishments and may be calculated from the revenue and expense data collected in this survey. Gambling establishments reported total revenue of $1.039 billion and expenses of about $951 million, leaving a net margin of $88 million, or roughly 8.5 percent of total revenue. The net margin includes the before-tax return to owners (proprietors, partners, and stockholders), capital charges, and certain costs not specified in the questionnaire. The value of the liquor license—which can exceed $300,000 in certain areas—is not explicitly included in these calculations. Finally, the net margin calculation also implicitly includes the risk premium associated with operating a gambling establishment. Some people may consider the gambling industry to be riskier than average because of close government regulation.

Gambling establishments differ significantly in their sources of revenue. As shown in Figure 2, revenue generated from gambling ranges from 6 to 66 percent, depending on the type of gambling establishment. Those establishments with 20 VGMs reported the maximum share of 66 percent.

A Closer Look at Taxes

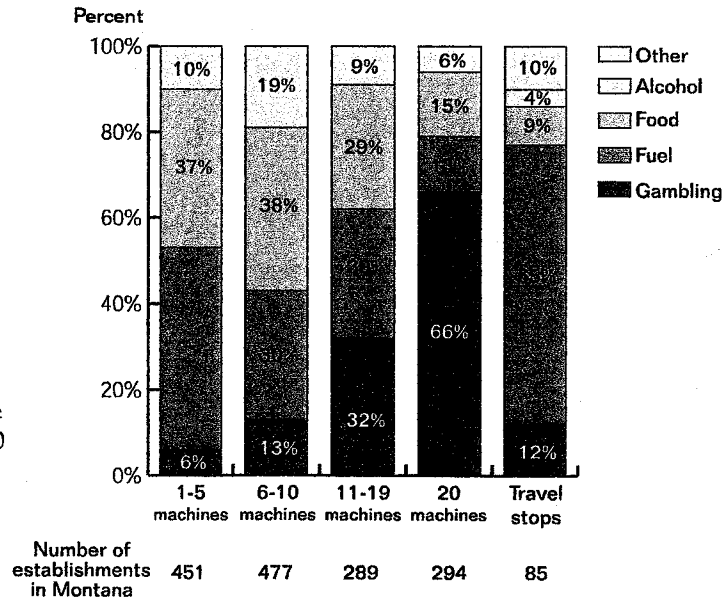
Based on the survey responses, Montana gambling establishments paid an estimated $74 million in taxes and fees during 2001. An estimated $37 million was paid in VGM taxes, which is not statistically different from the $41 million in VGM taxes reported by the Montana Department of Justice. Montana gambling establishments paid an additional $37 million in real estate taxes, business income tax, city taxes and/or fees, and other fees and licenses.

Figure 1
Revenue and Expenses, Montana Gambling Establishments, 2001



Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 2
Sources of Revenue, Montana Gambling Establishments, 2001



Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Table 1
Full and Part-time Employment, Montana Gambling Establishments, 2001

	NUMBER OF VGMs											
	1 to 5		6 to 10		11 to 19		20		Fuel Stops		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Part-time Employees	2,255	55.5	3,339	46.7	1,734	40.0	2,058	41.2	765	39.1	10,151	46.7
Full-time Employees	1,804	44.5	3,816	53.3	2,601	60.0	2,940	58.8	1,190	60.9	12,351	54.9
Total	4,059	100.0	7,155	100.0	4,335	100.0	4,998	100.0	1,955	100.0	22,502	100.0

Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Employment

Based on this survey, Montana gambling establishments employed 22,502 persons in 2001. There were 12,351 full-time workers (32 hours or more per week) and 10,151 part-time workers (less than 32 hours per week). As shown in Table 1, part-time employment is much more prevalent in smaller gambling establishments. For establishments with 1 to 5 machines, approximately 44 percent of the workers were full-time and roughly 56 percent were part-time. The percentage of full-time workers rises to 53 percent for those establishments with six to 10 machines. Finally, full-time workers represent about 60 percent of the total in gambling establishments with 11 or more machines.

Economics

This section uses the estimated sales and employment data for gambling establishments to compare them with other sectors of the Montana economy. These comparisons should be interpreted cautiously because there is some double counting. As was mentioned earlier, gambling establishments are classified in a number of industries, including some of those used for comparisons presented here. The purpose here is simply to provide rough measures of how the gambling industry compares to other major sectors of the state's economy.

Montana does not have a sales tax. Consequently, there are no up-to-date and reliable figures for retail sales. The retail sales figures presented in Figure 3 are from the 1997 Economic Census conducted by the U.S. Bureau of the Census.

The estimated 2001 total sales of Montana gambling establishments were $1.039 billion, slightly smaller than the 1997 sales of general merchandise stores ($1.141 billion) and food and beverage stores ($1.320 billion). General merchandise stores include department stores and superstores, and food and beverage stores include convenience stores, liquor stores, and grocery stores. The gambling establishments' 2001 sales were larger than the 1997 sales of food service and drinking places ($0.861 billion).

As shown in Figure 4, estimated 2001 employment for Montana gambling establishments was 22,500 people. General merchandise stores and food stores employed 9,800 and 10,600 workers respectively. Total employment in food service and drinking places was 31,700.

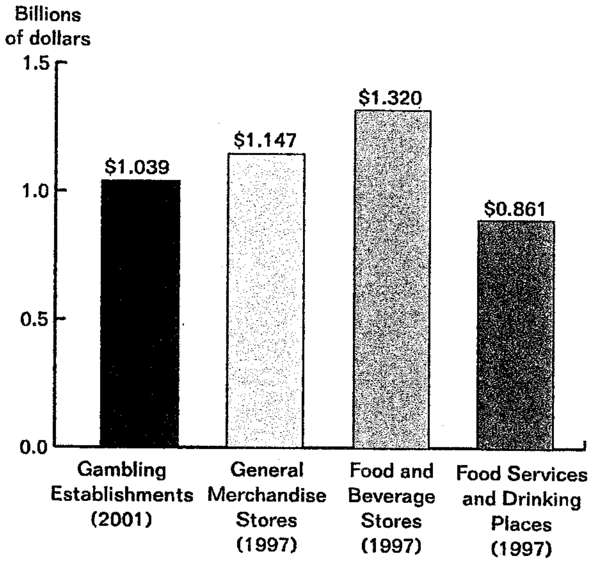
Growth Since 1997

The estimated total revenue of gambling establishments grew at an annual rate of 3.0 percent per year between 1997 and 2001, from $923 million in 1997 to $1.039 billion in 2001. Inflation averaged about 1.9 percent per year. Therefore, gambling establishment revenue grew about 1.1 percent per year in inflation-adjusted terms between 1997 and 2001.

As shown in Figure 5, gambling revenues were the fastest growing major component, increasing an average of 6.4 percent per year between 1997 and 2001. Fuel was in second place, growing at 6.2 percent per year. However, the price of gas rose significantly between these years; the actual quantity of fuel sold increased at a much slower rate. Revenue from alcohol sales rose approximately 2.3 percent per year, while food revenue declined roughly 4.8 percent per year.

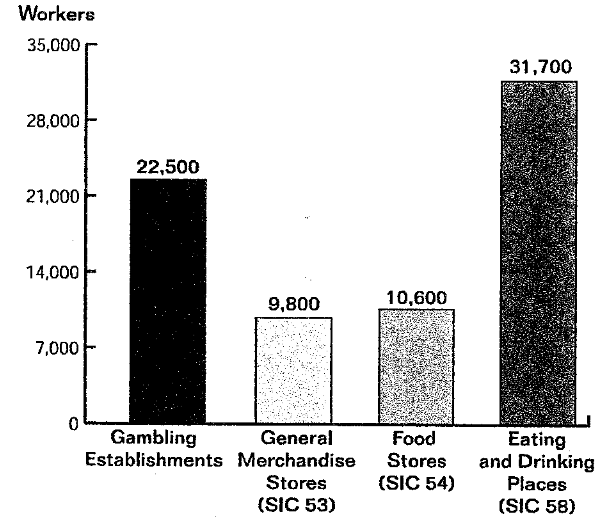
The 1998 study reported total gambling establishment employment of 16,300 in 1997. The 2001 total employment estimate of 22,500 gambling industry workers is based on a slightly different question and estimating procedure than was used in the 1998 study. Adjusting for these differences, the 1997 total employment estimate would be about 20,000 workers. This suggests only modest employment growth between 1997 and 2001.

Figure 3
Total Sales,
Montana Gambling Establishments and
Selected Industries, Selected Years



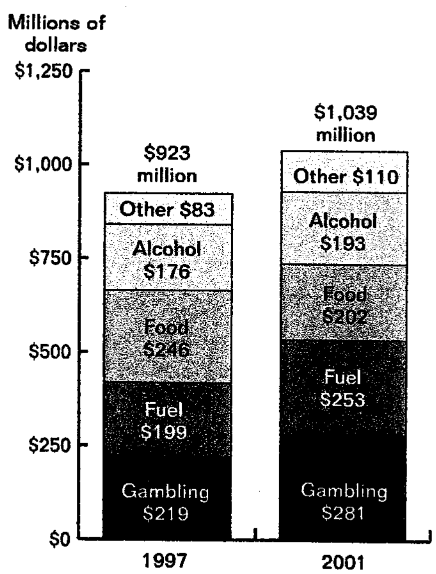
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula and U.S. Bureau of the Census.

Figure 4
Total Employment, Montana
Gambling Establishments and
Selected Industries, 2001



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula and Montana Department of Labor and Industry.

Figure 5
Sources of Revenue,
Montana Gambling Establishments,
1997 and 2001



Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Conclusion

With this data, we can compare gambling to other businesses such as department stores, grocery stores, and food service and drinking places. Gambling is a significant industry in Montana. Any attempt to modify the gambling industry would negatively impact a sizable portion of Montana's economy.

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